

STATEMENT OF SENATOR JOHN McCAIN
Senate Committee on Commerce, Science and Transportation
March 17, 1998

Thank you. This will be the Committee's ninth hearing on issues related to the proposed tobacco settlement.

Today we will hear from the National Governors Association; the National Association of Convenience Stores; and financial experts, including the Treasury Department, to gain their perspective on the legislation.

The nation's governors play a pivotal role on tobacco legislation. The state lawsuits were what brought the industry to the negotiating table and resulted in the proposed settlement. A national settlement can only be concluded successfully if the states consent to extinguish their cases in return for billions in industry payments, marketing restrictions, and submission to vast regulation.

Moreover, under each of the tobacco bills introduced, the the states would play a key role in enforcing youth access laws, and fashioning initiatives to help us meet the goal of dramatically reducing youth smoking. We value the opportunity to receive the Governors' input.

We will also examine the impact of the settlement on retail operations. The proposed restrictions on point-of-sale advertising, licensure requirements, and the resulting increase in tobacco prices envisioned in the settlement will have an impact on retail operations, including many small and family-owned businesses, and we must take into consideration their concerns and suggestions.

Finally, we will address serious financial and pricing questions that cut to the core of this settlement. We are told that the settlement would result in a 62 cent increase in the pack of cigarettes within five years. However, that amount could be much higher, well over a dollar, if the consumer price index and other related price inflators are factored into the equation.

The President's budget called for a price increase of one dollar and ten cents over the next five years, and, he has subsequently called for an increase of up to one dollar and fifty cents within ten years. So we must understand what real price increases we can expect and how they might impact demand among youth.

As we all know, some of the tobacco proposals call for much higher payments from the industry than the proposed settlement. By some estimates, these proposals could push cigarette prices to \$6 per pack.

I agree with the President when he says it's not the "size of the prize" that counts but what tobacco legislation will do for public health. Experts tell us there is a point at which pricing fosters a black market that would constitute a public health concern. So, clearly, we must be cautious and fully understand the impact of our actions.

With that, I welcome our witnesses and look forward to your testimony.

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